



REQUEST FOR PROPOSAL

SMALL/MID CAP VALUE EQUITY
INVESTMENT OPTION
FOR THE
STATE OF HAWAII
SECTION 457 DEFERRED COMPENSATION
PLAN

RFP NO. DCP-FY-04-1

Date: August 30, 2004

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PUBLIC NOTICE TO OFFERORS

As advertised in the Hawaii State & County Public Notice section of the
THE HONOLULU STAR BULLETIN Publication on August 30, 2004.

NOTICE is hereby given that COMPETITIVE SEALED PROPOSAL for
"SMALL/MID CAP VALUE EQUITY INVESTMENT OPTION FOR THE STATE OF
HAWAII SECTION 457 DEFERRED COMPENSATION PLAN", RFP No. DCP-FY-04-1,
is being solicited. Proposals must be sent to the Chairperson of the Board of Trustees
("Board") of the State of Hawaii's Deferred Compensation Plan, Department of Human
Resources Development, 235 S. Beretania Street, 14th Floor, Honolulu, Hawaii 96813,
by **12:00 p.m., Noon (HST), September 30, 2004**. The proposal shall not be opened
publicly, but shall be opened in the presence of persons designated by the Chairman.
The Request for Proposal (RFP)/Specifications may be obtained at no cost, beginning
at 12:00 p.m. Noon (HST), August 30, 2004, from the above address or can be mailed
by calling (808) 587-1070. Proposers/bidders requesting mailing must provide their
Federal Express Account Number or equivalent. The deadline for submission of written
questions or requests to amend the RFP is September 7, 2004, 2:00 p.m. (HST). A
written Notice of Intent to Submit a Proposal must be received by the above office by
2:00 p.m. (HST), September 23, 2004, in order for a proposal to be considered.
Questions and the Notice of Intent to Submit a Proposal may be faxed to (808) 587-
1128. The Board reserves the right to cancel this RFP, or reject any and all proposals,
in whole or in part, when it is in the best interest of the State. The State of Hawaii and
the Board assume no financial responsibility/liability whatsoever for the preparation of
any response to this Request for Proposal. You may also visit our website at
<http://www.state.hi.us/hrd> to obtain more information.

KATHLEEN N. A. WATANABE, Chairperson
Board of Trustees
State of Hawaii
Deferred Compensation Plan

August 30, 2004

I. CALENDAR OF EVENTS

Advertisement	August 30, 2004
Request for Proposals issued	August 30, 2004 12:00 Noon (HST)
Deadline to fax written questions/requests to amend RFP	September 7, 2004 2:00 p.m. (HST)
State's responses to questions/requests to amend RFP	September 15, 2004
Deadline to submit a "Letter of Intent to Submit a Proposal"	September 23, 2004 2:00 p.m. (HST)
Deadline to submit proposals	September 30, 2004,* 12:00 Noon (HST)
Proposal review period	October 1-22, 2004
Interviews with Finalists	November 5, 2004
Deadline to submit best and final offers	November 10, 2004 2:00 p.m. (HST)
Selection of Fund	November 19, 2004
Contract execution	January 15, 2005

Note: All times specified herein are based on Hawaii Standard Time ("HST").

*Proposals must be received in the Office of the Director of the Department of Human Resources Development ("HRD") by 12:00 p.m., Noon (HST), **September 30, 2004**. Late proposals shall be rejected and not considered.

The above dates are estimates only and are subject to change at the Board's sole discretion. The Board reserves the right to change any date(s) as deemed necessary and in the best interest of the STATE.

II. INTRODUCTION

A. Background

Hawaii Revised Statutes (“**HRS**”) chapter 88E authorizes the State of Hawaii (“**STATE**”) to establish a Deferred Compensation Plan (“**Plan**”) for the benefit of employees in accordance with section 457 of the Internal Revenue Code of 1986, as amended (“**Code**”). The Plan’s Board of Trustees (“**Board**”) is responsible for the overall administration of the Plan, and consists of seven (7) trustees who are appointed by the Governor. The Director of Human Resources Development serves as the chairperson, and the Board is placed within the Department of Human Resources Development for administrative purposes.

The Plan has been in existence since 1982, and is open to all employees who are members of the STATE’s Employees’ Retirement System and employed by either the STATE, the County of Hawaii, the County of Maui, or the County of Kauai. The following statistics are available as of June 30, 2004 (except where noted as 2003):

Number of active participants (contributing)	19,461
Number of inactive participants (employed/not contributing)	2,849
Number of retired or separated who received or are receiving distributions	2,031
Number retired or separated with accounts who are not yet receiving distributions	3,599
Number of participants who purchased annuities	0
Total value of annuities purchased	n/a
Stable value fund asset value (Prudential)	\$596,190,505
New enrollments processed in 2003	944
Termination and retirements processed in 2003	992
Deferral changes (increase, decrease, cancel) processed in 2003	2,137
Number of transfers processed in 2003	3,648
Number of participants making allocation changes processed in 2003	1,914

The total number of employees eligible to participate in the Plan is approximately 54,000¹. \$78 million was deferred last calendar year (2003) and the Plan’s total assets was \$1.053 Billion² as of December 31, 2003. Participant contributions are deposited

1 This figure includes eligible employees in the State Executive Branch (including DOE & University), the Judicial and Legislative Branches, the Hawaii Health System Corporation, other separate State agencies, and the counties of Hawaii, Maui, and Kauai.

2 This figure includes funds in the Great-West Life account, and all unsettled transfers.

into the Plan each pay date. There are approximately forty-eight (48) pay dates per year: 24 paylag and 24 non-paylag. “Paylag” is defined as the 5th and 20th of every month, and “non-paylag” is defined as the 15th, 30th, or the 31st of each month. If any of these dates fall on a weekend or a holiday, the pay date is the business day before. Currently, the STATE and Counties release contribution information to the Plan’s Third Party Administrator (“**TPA**”) two business days prior to the pay date.

The Plan’s TPA is CitiStreet LLC (“**CitiStreet**”) and the Plan’s Custodian is State Street Bank and Trust (“**State Street**”).

The Plan currently offers the following investment options to participants:

Investment Options	Balance (as of 6/30/04)
Prudential Stable Value	\$596,190,505
PIMCO Total Return Bond	12,478,631
Vanguard Wellington	32,536,341
Fidelity Puritan	15,540,240
Vanguard Institutional Index	112,152,745
Dryden Stock Index	90,590,645
Fidelity Growth & Income	57,950,016
Wellington Research Value	62,449,661
Wells Fargo Large Cap Growth	38,724,662
Delaware Trend	40,191,762
EuroPacific Growth	33,456,385
Income Target Maturity Fund	463,773
2015 Target Maturity Fund	415,909
2025 Target Maturity Fund	58,936
2035 Target Maturity Fund	245,368
2045 Target Maturity Fund	49,238

B. Investment Options

The Board intends to obtain a Small/Mid Cap Value Equity Option to fill a gap in the existing array of investment options. The Board therefore requests that interested parties submit proposals based on the requirements described in this RFP. The Board, with the assistance of Mercer Investment Consulting, Inc. (“**Mercer**”), will review the proposals and make its selection in accordance with the provisions of this RFP and STATE law.

The new Small/Mid Cap Value Equity Option shall be part of the Plan's core investment options, and shall be part of the Plan's five (5) lifecycle funds. The lifecycle funds consist of the Plan's core investment options, and the asset allocation of each lifecycle fund is based on the target maturity of each portfolio.

III. SCOPE OF WORK

The requirements specified in this section are designed to assist the Offeror in submitting a proposal that will best meet the needs of the STATE. The requirements presented specify the services to be provided by the successful Offeror and the minimum capabilities required.

A. Small/Mid Cap Value Equity Option

The Board desires to procure one Small/Cap Value Equity investment product.

B. General Information

The following information describes the investment product requirements for the Small/Mid Cap Value Equity Option:

1. Organization. The firm shall have:
 - a. Been managing assets for at least five (5) years, preferably longer;
 - b. A low level of personnel turnover;
 - c. A low level of client turnover and evidence of controlled business growth;
 - d. Not been involved in any major litigation surrounding investment management activities; and
 - e. Same day late trading for administration and recordkeeping purposes.
2. Investment strategy. The firm shall have:
 - a. At least \$150 million in assets under management (includes all investment vehicles for the proposed strategy);
 - b. A well-diversified investment strategy;
 - c. Returns derived from a combination of dividend income and capital appreciation;
 - d. A strong adherence to a mid/small cap value equity style mandate;
 - e. Invested primarily in mid/small capitalization stocks with a median

market capitalization less than \$5 billion;

- f. No individual equity security representing more than eight percent (8%) of total assets;
- g. Strategies that do not tactically utilize cash and short-term fixed income instruments as a source of value-added (i.e., the fund derives the majority of its value-added from security selection and sector and country weightings);
- h. Limit use of non-US stocks to ten percent (10%) of the fund;
- i. A competitive fee schedule/expense ratio; and
- j. Proposed investment strategy can be utilized in the target maturity lifecycle funds.

3. Performance. The investment option shall have:

- a. A verifiable track record that demonstrates consistent adherence to the stated investment approach;
- b. Risk and return characteristics of historical data that are consistent with its role; and
- c. Performance that has outperformed the median mid/small cap value equity manager universe and the Russell 2500 Value Index over a rolling three (3) and five (5) year period.

C. Reports and Annual Meeting

1. Quarterly reports

- a. The CONTRACTOR shall provide quarterly reports to the Board and/or its designees that contain the following information:
 - 1. Beginning balance for the period (in dollar amount and number of shares);
 - 2. Contributions for the period;
 - 3. Earnings or losses for the period, including dividends/capital gains distributions that are reinvested;

4. Monthly percentage yield;
 5. Purchases/redemptions for the period;
 6. Payments to participants/beneficiaries;
 7. Ending balance for the period (in dollar amount and number of shares);
 8. Compensation paid to the Plan's TPA (in dollar amount and number of shares redeemed from each mutual fund);
 9. A comparison of each investment option's performance with its respective peer group's/benchmark's performance;
 - a. The peer group/benchmark shall be mutually agreed upon between the CONTRACTOR and the Board; and
 10. Any other information reasonably required by the Board.
- b. These reports shall be provided within fifteen (15) business days after the end of each calendar quarter.

2. Annual reports

- a. The CONTRACTOR shall provide an annual report to the Board and/or its designees that summarizes the information in paragraph C.1.a. above, and any other information reasonably required by the Board.
- b. The annual report shall be for the periods July 1 to the following June 30, and shall be provided by July 15 of each year.

3. Annual meeting

- a. The CONTRACTOR shall attend the Board's annual meeting (typically held in September) to make a presentation to the Board on the investment option(s)' performance, market trends, future rates of return, etc.
- b. The CONTRACTOR shall provide the reports above and attend the annual meeting at no cost to the STATE, Plan, or Board.

4. Ad Hoc Reporting

- a. The CONTRACTOR shall be responsible for notifying the Board and/or its designees immediately in writing of any material events (e.g., ownership changes, personnel departures, violation of guidelines, etc.) that potentially could have a negative impact on the investment strategy.

- D. Other Services. The CONTRACTOR shall provide other services related to the provision of the investment option as reasonably required by the Board.

IV. INFORMATION INCLUDED IN PROPOSAL

A. General Investment Option Information

Please provide the following information for the proposed Small/Mid Cap Value Equity Option:

1. Describe fully the specific investment vehicle to be delivered under your proposal (i.e., commingled fund qualified for section 457 deferred compensation plans, institutional mutual fund, or retail mutual fund), stating that the proposed product is in compliance with the provisions of the Plan, as well as with requirements of regulatory entities governing the particular institution or product. Given the size of the placement (assets would start at zero), if your firm can offer a lower cost institutional mutual or commingled fund please describe.
2. Describe fully all matters related to the issuance, maintenance, and administration of the investment option. This includes custody costs, minimum contribution levels, loading costs, policy fees, surrender charges, actuarial margins, underlying asset fees, risk or mortality charges, and any other administrative expenses or fees at the Plan or Contract level. Detail all expenses except for Plan level charges;
3. Describe all participant or Plan level investment transfer restrictions or penalties. Include all information on unrestricted or “free” transfers or Plan transfer limits (i.e., percentage of total Plan assets). Describe these restrictions as they relate to investment options offered by your company and to investment options offered by other investment companies;
4. State whether this investment option is a front-end load, rear-end load, or no-load fund. If there is a load, please provide the fee schedule;
5. State whether front-end load or termination charges (rear-end load) can be waived for section 457 deferred compensation plan clients. Explain the conditions;
6. Is the investment option currently available on CitiStreet’s administrative platform?
7. Alternatively, how do you propose to facilitate transfers, exchanges, sales purchases, and distributions with the Plan’s TPA?
8. Describe what effect the discontinuance of enrolling new participants may have on the investment option;

9. Describe fully the right of the CONTRACTOR to terminate, assign, or amend any Contract entered into with the Board and the effect of such action on existing participants in this case;
10. Describe fully the withdrawal conditions, if any, in the event the Contract is terminated by the STATE for cause or at the expiration of the Contract term;
11. Describe fully the right, under your proposed Contract, of the STATE to terminate the Contract prior to its expiration. Please state fully any penalties or market value adjustments that may result from any such termination;
12. Describe fully any and all compensation, 12b-1 fees, distribution fees, rebates, sub-transfer fees, refunds, and other types of remuneration (e.g., sub-transfer agency fees) payable from funds or distributors for each investment option to CitiStreet. Indicate the manner and mode in which your company proposes to pay these;
13. Describe how your company will guarantee to the STATE that said funds and investments will never be diverted (through business failure or otherwise) by virtue of bonds furnished the STATE, escrow arrangements, securities pledged with the STATE, or otherwise;
14. Describe to what extent the investment options would be registered or made in the name of the STATE rather than your company;
15. If your answers to the above do not sufficiently cover all the pertinent facts that qualify the company to underwrite or provide investment options to the Plan, please summarize any additional information that should be considered by the Board in making its decision; and
16. Explain any death or disability benefits under the investment option, and the fees and expenses attributable thereto.

B. Specific Investment Option Information

1. Does the investment strategy that is being proposed by your firm satisfy the requirements in Part III, "SCOPE OF WORK", of this RFP? If not, please list and describe each requirement that is not satisfied;
2. Describe the minimum/maximum guidelines for the use of cash reserves, if any;

3. For the last ten (10) years or during the investment option's history, whichever is less, state the percentage of the option invested in cash;

4. How much of your "value added" is attributable to:

Being in cash or being in the market	_____	%
Selecting the correct industries	_____	%
Selecting the correct issues	_____	%
Should total	<u>100</u>	%

Do not show ranges. Fill in blanks as provided (i.e., 10%, 25%, etc.)

5. Performance history –twelve (12) month total annual return for years ending December 31:

2003	_____	1994	_____
2002	_____	1993	_____
2001	_____	1992	_____
2000	_____	1991	_____
1999	_____	1990	_____
1998	_____	1989	_____
1997	_____	1988	_____
1996	_____		_____
1995	_____		_____

6. Performance history – 3 to 5 year periods – totals for years ending December 31 (show performance for each 3 or 5 year period, respectively):

	<u>3 Years</u>	<u>5 Years</u>
2003	_____	_____
2002	_____	_____
2001	_____	_____
2000	_____	_____
1999	_____	_____
1998	_____	_____
1997	_____	_____
1996	_____	_____
1995	_____	_____
1994	_____	_____

1993

7. Investment option managed with current objective for _____ years; and
8. Investment option managed by current portfolio manager for _____ years.

C. Mercer's "Global Investment Database Questionnaire"

1. To assist the Board in its evaluation of the proposals, please complete Mercer's "Global Investment Database Questionnaire". The questionnaire is included in this RFP or may be completed on-line at Mercer's website at: <http://www.mercergimd.com/>.
2. Please include the completed "Global Investment Database Questionnaire" with your proposal; your responses to Mercer's Questionnaire shall be considered part of your proposal.

V. COMPENSATION AND PAYMENT OF EXPENSES

- A. The CONTRACTOR shall provide the investment option and other services specified in this RFP at no cost to the STATE. No STATE funds are budgeted for the Plan and no fees shall be paid to the Offeror by the STATE.
- B. The Offeror shall be compensated solely from the assets of the Plan.
- C. Except as otherwise provided herein, the Offeror shall not be entitled to receive, accept, or derive any other income, compensation, or fee (e.g., commissions, benefits, financial incentives, floats, etc.) for the provision of the investment option and other services specified in this RFP without the express written approval of the Board.
- D. Except as otherwise provided herein, the Offeror shall not pay or compensate CitiStreet, State Street, or any other product provider any income, compensation, or fee (i.e., commissions, benefits, financial incentives, floats, etc.) without the express written approval of the Board.

VI. OFFEROR'S QUALIFICATIONS AND EXPERIENCE

A. Company Description/Information

The following must be included in your proposal:

1. Name of company, home office address, name of company contact person to answer questions, contact person's telephone number, FAX number, and e-mail address;
2. Company's total assets, total capital, total surplus, and total retained earnings;
3. If the company is an insurance company, provide its Best's rating. If the company is not listed in "Best's Insurance Reports", list other information on the company's financial rating. If rated by Standard & Poor's, Moody's, or Duff and Phelps, please provide the rating;
4. If the company is a bank or other investment company, list the company's total assets, excluding assets held in trust. If rated by Standard & Poor's, Duff and Phelps, or Moody's, please provide the rating. If rated by Sheshunoff or other comparable service, please provide the rating;
5. State the number of years the company has been licensed to do business in the State of Hawaii. If not currently licensed, state how long it will take to become licensed. Prior to transacting business in the STATE, the company shall comply with all licensing requirements of federal and/or STATE law;
6. Provide a copy of the company's audited financial statements for the last two (2) years;
7. If the company is an affiliate of a holding company whose subsidiaries offer other types of financial services, describe and enclose literature showing such affiliation, total assets, and the services and products offered by each subsidiary;
8. State the length of time the company has been investing assets for section 457 deferred compensation plans or qualified defined contribution plans (e.g., 401(k));
9. State whether the company has been involved in litigation within the last five (5) years or has any pending litigation arising out of its performance or participation in any section 457 deferred compensation plan, defined

contribution plan, or defined benefit plan. Exclude routine interpleader actions, garnishments, and similar routine matters involving participants and beneficiaries that do not reflect on your performance of your contract. Please explain in detail;

10. State whether the company has been cited or threatened with citation within the last five (5) years by federal or state regulators for violations of state or federal law and implementing regulations. Please explain in detail;
11. List five (5) section 457 deferred compensation plans the company provides investment services to with at least 1,000 participants, and the name, title, and telephone number of the persons whom the STATE may contact for reference purposes;
12. Provide the most recent Annual Report for the company (if available);
13. If requested, can you provide a statement of counsel that the service and products you intend to provide are legal and appropriate under relevant STATE and federal regulations, and that the company is licensed to do business in the State of Hawaii, or will be at the time of Contract commencement?;
14. If the company is an insurance company, please provide a certificate of authority filed with the State of Hawaii's Insurance Commissioner;
15. State whether the company has ever been terminated by a section 457 deferred compensation plan, defined contribution plan, or defined benefit plan client. Please explain by whom and under what circumstances;
16. Describe your willingness to work with the Plan's TPA and recordkeeper to ensure the smooth operation of all Plan functions; and
17. Should the Board eliminate some of the existing Plan investment options and should there be withdrawal charges levied against the Plan assets to transfer funds to your investment option(s), describe your willingness to work with the Board to minimize or eliminate the withdrawal charges.

B. Partnerships, Joint Ventures, and Subcontractors

1. An Offeror shall identify all partners, joint venturers, and subcontractors that the Offeror intends to use in the provision of services under this RFP.
 - a. Note: Once the Contract is executed, an Offeror shall not subcontract any of the work to be performed under the Contract, change subcontractors, or assign the Contract to any other person or company without the prior written approval of the STATE.
2. Describe in detail the work that will be performed by the Offeror's partners, joint venturers, and subcontractors.

VII. ADMINISTRATIVE PROVISIONS

A. STATE Procurement Code

1. This RFP is issued in accordance with the provisions of the STATE's Procurement Code contained in HRS chapter 103D and the administrative rules thereunder. All Offerors are charged with presumptive knowledge of all requirements of the cited authorities and STATE law. The submission of a properly executed proposal by an Offeror shall constitute certification and representation of such knowledge.

B. Issuing Officer

1. This RFP is issued by the STATE/Board.
2. The individual listed below shall be the point of contact from the date this RFP is issued to the date an Offeror is selected to be the CONTRACTOR:

Ms. Kathleen N. A. Watanabe
Chairperson
Board of Trustees
State of Hawaii Deferred Compensation Plan
Department of Human Resources Development
235 South Beretania Street, 14th Floor
Honolulu, HI 96813

Telephone: (808) 587-1100
Fax: (808) 587-1128

C. Procurement Officer

1. The Procurement Officer or his designee shall serve as the STATE's primary liaison with the CONTRACTOR in working with other STATE staff during the term of the Contract. The Procurement Officer or his designee shall provide overall direction during the term of the Contract, and monitor and assess the CONTRACTOR's performance.
2. The Procurement Officer for the Contract is Ms. Kathleen N. A. Watanabe, Chairperson of the Board.

D. Offeror's Questions on the RFP

1. If an Offeror has any question on the provisions of the RFP, the Offeror shall submit its question(s) in writing (typewritten) to the Issuing Officer no later than 2:00 p.m. (HST), September 7, 2004. Questions may be sent by facsimile machine to the Issuing Officer, provided they are received by 2:00 p.m. (HST), September 7, 2004.
2. The Issuing Officer shall formally respond in writing to timely submitted written questions received by September 15, 2004. The Issuing Officer intends to respond by fax by September 15, 2004 to all Offerors known to have picked up an RFP, with a hard copy to follow.

E. Offeror's Requests to Amend the RFP

1. If an Offeror desires to amend a requirement of the RFP, the Offeror shall identify the amendment and provide justification for the amendment in writing. A request to amend this RFP shall be submitted to the STATE by 2:00 p.m. (HST), September 7, 2004.
2. The STATE shall review the request and decide whether to amend the RFP in its sole discretion. Any changes to the RFP shall be made through the issuance of an Addendum to the RFP.

F. STATE Not Responsible for Non-Receipt of Responses by Offerors.

1. The STATE and Board shall not be responsible whatsoever for any delays or non-receipt of responses to questions or requests to amend the RFP, or Addendums, by the Offerors.

G. RFP Amendments

1. The STATE reserves the right to amend this RFP any time prior to the closing date for final receipt of proposals (i.e., prior to 12:00, p.m., Noon (HST), on September 30, 2004).

H. Cancellation of RFP/Rejection of Proposals

1. The STATE reserves the right to cancel the RFP when, in the STATE's opinion, such cancellation is in the best interest of the STATE.
2. The STATE may reject proposals, in whole or in part, and waive any defects, when in the STATE's opinion, such rejection or waiver will be in the best interest of the STATE.

3. The STATE shall not be liable for any costs, expenses, loss of profits, or damages whatsoever incurred by the Offerors in the event this RFP is canceled or a proposal is rejected.
4. Multiple, alternate, or conditional proposals shall not be accepted.

I. Bid Security

1. No bid security is required to be submitted for this RFP, and no performance or payment security shall be required for the resulting Contract.

J. Tax Clearances

1. The resulting Contract shall be subject to HRS section 103-53, and HRS chapter 103D, as amended (and other similar STATE laws, if any).
2. The law requires all businesses to obtain a tax clearance certificate from the STATE Department of Taxation and the Internal Revenue Service in order to enter into a STATE contract. The CONTRACTOR shall be required to submit an approved STATE Application for Tax Clearance, Form A-6, for contract execution and for final payment and subject to general excise tax and State of Hawaii income tax requirements. Forms and additional information are available from the Department of Taxation ("**DOTAX**") or at DOTAX's Website (<http://www.hawaii.gov/tax/tax.html>).

K. Insurance

1. The CONTRACTOR shall maintain insurance acceptable to the STATE in full force and effect throughout the term of the Contract as follows:
 - a. STATE requirements for workers' compensation, temporary disability, unemployment, and prepaid health care insurance coverage; and
 - b. Professional liability insurance coverage - minimum of \$5,000,000 per occurrence; provided that this policy shall contain the following clauses:
 1. "This insurance shall not be canceled, limited in scope of coverage, or non-renewed unless at least thirty (30) calendar days written notice has been given to the Board of Trustees of the State of Hawaii Deferred Compensation Plan."

2. "The State of Hawaii Deferred Compensation Plan is added as an additional insured with respect to operations and services performed for the State of Hawaii Deferred Compensation Plan."
 3. "It is agreed that any insurance maintained by the State of Hawaii shall only apply in excess of, and not contribute with, the insurance provided by this policy."
2. Appropriate errors and omissions liability insurance policy covering the CONTRACTOR against claims that may arise as a consequence of errors or omissions in providing services (including any such claims which may arise in connection with the services provided under the Contract). The provisions of this paragraph shall survive the expiration or earlier termination of the Contract.
 3. The CONTRACTOR agrees to deposit with the STATE, on or before the effective date of the Contract, certificate(s) of insurance necessary to satisfy the STATE that the provisions of the Contract have been complied with, and to keep such insurance in effect and provide the certificate(s) of insurance to the STATE during the entire term of the Contract. Upon request by the STATE, the CONTRACTOR shall furnish a copy of the policy or policies.
 4. Failure of the CONTRACTOR to provide and keep in force such insurance shall constitute a material default under the Contract, entitling the STATE to exercise any or all of the remedies provided in the Contract (including without limitation terminating the Contract). The procuring of any required policy or policies of insurance shall not be construed to limit the CONTRACTOR's liability hereunder, or to fulfill the indemnification provisions of the Contract. Notwithstanding said policy or policies of insurance, the CONTRACTOR shall be responsible for the full and total amount of any damage, injury, or loss caused by the CONTRACTOR's negligence or neglect in the provision of services under the Contract.

L. Americans with Disabilities Act of 1990

1. The CONTRACTOR shall comply with the Americans with Disabilities Act of 1990, as amended ("**ADA**").
2. In its proposal, the Offeror shall agree to comply with the ADA in the provision of services under this RFP and the Contract, at no cost to the STATE.

M. Quiet Period

1. Offerors and their agents, officers, principals, and employees shall not engage in any written or verbal communication with the STATE, Board, Evaluation Committee, or Board's staff during the procurement and selection process. The process ends at the time the Contract is executed, unless otherwise requested by the Board.
2. Offerors shall not engage in any lobbying efforts, or other attempts to influence the STATE, the Board, the Evaluation Committee, or Board's staff in an effort to be selected.
3. Any violation of this paragraph M. may constitute grounds to reject a proposal.

VIII. PROPOSAL SUBMISSION INSTRUCTIONS AND REQUIREMENTS

A. Letter of Intent to Submit a Proposal

1. An Offeror interested in submitting a proposal must submit a non-binding "Letter of Intent to Submit a Proposal" (see, Appendix "A") which must be received by the Issuing Officer by 2:00 p.m. (HST), on September 23, 2004. The "Letter of Intent to Submit a Proposal" shall be sent to the Issuing Officer by mail or fax.
2. An Offeror who does not submit a "Letter of Intent to Submit a Proposal" shall be precluded from submitting a proposal; and, only those Offerors who have submitted a "Letter of Intent to Submit a Proposal" shall receive official communications from the STATE.

B. Submission of Proposals

1. To be considered responsive, an Offeror's proposal must be for all items specified in this RFP (and any subsequent Addendum(s)). Any proposal offering any other set of terms and conditions contradictory to those included herein (or in any subsequent Addendum) may be rejected without further consideration.
2. An Offeror must complete the "Standard Proposal Letter" in Appendix "B", and identify the name and telephone number of a person who may be contacted during the evaluation process to discuss the proposal.
 - a. By signing the "Standard Proposal Letter", the Offeror agrees to comply with the requirements of this RFP, and all applicable federal and STATE laws.
 - b. The "Standard Proposal Letter" must be signed by an officer (an original signature is required) who has authority to bind the Offeror, and evidence of that authority must be attached and the corporate seal, if any, affixed to the "Standard Proposal Letter".
3. An Offeror shall prepare and submit a proposal that fully describes the services, time frame, and compensation that the Offeror proposes in response to this RFP. An Offeror shall describe how its proposal meets the STATE's requirements on a point-by-point basis as itemized in Part III "SCOPE OF WORK", Part IV "INFORMATION INCLUDED IN PROPOSAL", Part VI "OFFEROR'S QUALIFICATIONS AND EXPERIENCE", and other applicable provisions in this RFP. The description shall be in sufficient detail to enable the STATE to evaluate the

services offered. This is in addition to any brochures or printed materials that may be submitted with this RFP.

- a. The following format shall be used when responding to requirements of this RFP:
 1. Identify the relevant section number and heading;
 2. Repeat the relevant request, condition, or term; and
 3. Provide the response to the matter as appropriate.
 - b. Any supplemental information thought to be relevant, but not applicable to the specified categories, should be provided as an appendix to the proposal.
 - c. All proposal responses must be in accordance with the terms and conditions stated herein. Descriptions may be submitted on additional sheets not provided for in this RFP.
 - d. The Offeror shall submit a written proposal, and a proposal in electronic format (i.e., in Microsoft Word on a separate diskette).
4. An Offeror shall complete the "WAGE CERTIFICATION" form in Appendix "C" and submit it with its proposal.
 5. An Offeror is required to submit its proposal using the Offeror's exact legal name, as registered in the state in which it is incorporated. Failure to do so may delay proper execution of the Contract. The original proposal response must also contain original signatures, and facsimiles shall not be accepted.
 6. All materials submitted shall become the property of the STATE, unless otherwise noted, and shall not be returned.
 7. The STATE reserves the right to hold all proposals received for a period of ninety (90) days from the date of the proposal opening, during which time they shall be irrevocable, unless otherwise required by law.
 8. Proposals shall be mailed or delivered to the Issuing Officer at the address specified above. Proposals must be received and time-stamped by the Issuing Officer no later than 12:00 p.m., Noon (HST), on September 30, 2004.

- a. Any proposal received after that date and time shall be rejected. Faxed or e-mailed proposals shall not be accepted or considered for award.
 - b. The outside cover of the package containing the proposal shall be marked:

"Proposal Submitted in Response to
RFP No. DCP-FY-04-1 for a Small/Mid Cap Value Equity Option for
the State of Hawaii Section 457 Deferred Compensation Plan
(Name, address, and fax number of Offeror)"
 - c. All proposals must be typewritten or mechanically printed on 8 ½" x 11" paper and in electronic format (i.e., on a diskette or CD).
9. Each qualified Offeror shall submit one (1) single-sided unbound original of the proposal and nine (9) copies (for a total of ten (10)) concurrently. Proposals shall be time-stamped upon receipt and shall not be opened publicly.
 - a. One (1) additional copy shall be mailed to Mercer at the following address:

Mercer Investment Consulting
Attention: Troy Saharic
One Union Square
600 University Street, Suite 3200
Seattle, Wa 98101-3137
10. Any Offeror may modify or withdraw a proposal before the opening date (i.e., prior to September 30, 2004, 12:00 p.m., Noon (HST)).
11. Trade Secrets/Proprietary Data
 - a. If an Offeror considers any part of a proposal a trade secret or proprietary data, the Offeror must clearly designate that portion as confidential in order to obtain any protection from disclosure that may be available under Hawaii Administrative Rules ("HAR") section 3-122-58, and HRS chapter 92F. Simply marking a section "confidential" shall not ensure protection. Each sheet of such information must be marked with the following: "This data constitutes a trade secret or proprietary data under HAR section 3-122-58, and/or HRS chapter 92F." Materials shall be readily separable from the proposal in order to facilitate inspection of the

nonconfidential portion of the proposal.

- b. Offerors shall submit reasons why the marked material constitutes a trade secret or proprietary data under the applicable section or chapter, and attach such justification with the proposal. The Offeror's pricing information for this RFP shall be open to public inspection and shall not be regarded as confidential.

12. Costs for Proposal Preparation

- a. Any and all costs incurred by an Offeror in preparing or submitting a proposal, or making a presentation to the Board, shall be the Offeror's sole responsibility, and shall not be reimbursed by the STATE or Plan whatsoever.

13. Executive Summary

- a. An Offeror shall also provide an executive summary of the Offeror's proposal that shall:
 - 1. Not to exceed three (3) pages in length;
 - 2. Fully disclose ALL materials facts, terms, and conditions, and include a detailed summary of:
 - a. The Offeror's qualifications and experience;
 - b. The Offeror's proposed fees;
 - c. Why the Offeror should be selected.
- b. The Executive Summary shall be detachable from the Offeror's main proposal.

IX. PROPOSAL EVALUATION AND SELECTION

A. Introduction

1. Only those proposals that substantially meet all of the terms, conditions, and requirements specified in this RFP shall be considered. All other proposals shall be considered non-responsive and shall be eliminated from the evaluation and selection process.
2. The STATE and Board are committed to a fair and impartial evaluation of all proposals received.

B. Evaluation Criteria

The evaluation shall be based on the following criteria and the corresponding point system:

	<u>Criteria</u>	<u>Maximum Points</u>
1.	Stability and quality of the firm	25
2.	Investment philosophy	20
3.	Construction of the portfolio and adherence to stated investment process	25
4.	Strength of overall performance of the product relative to appropriate benchmarks	20
5.	Fees/expenses	5
6.	Firm's ability to work with the Board and TPA	<u>5</u>
	TOTAL	100 =====

C. Evaluation Committee

1. The Board shall be the Evaluation Committee that shall review and evaluate all proposals submitted by the deadline specified in this RFP.

D. Evaluation Process

The evaluation of proposals shall be conducted in six (6) phases:

1. Phase 1 - Initial Classification of Proposals

Proposals shall be classified initially as “acceptable”, “potentially acceptable”, or “unacceptable”. All responsive, responsible Offerors who submit “acceptable” or “potentially acceptable” proposals shall be eligible for the priority list in Phase 2.

The purpose of this phase is to determine whether an Offeror's proposal is sufficiently responsive to the RFP to permit a complete evaluation. Offerors must submit the “Standard Proposal Letter”, and a proposal that addresses all of the requirements specified in this RFP and is in the format specified in this RFP. Failure to meet these requirements shall be grounds to deem the proposal “unacceptable”.

2. Phase 2 - Establishment of Priority-Listed Offerors

If there are more than three (3) “acceptable” or “potentially acceptable” proposals, the Evaluation Committee (with the assistance of the Board's Consultant) shall evaluate the proposals under the evaluation criteria above, rank the proposals, and limit the priority list to at least three (3) responsive, responsible Offerors who submitted the highest-ranked proposals. Those responsive, responsible Offerors who are selected for the priority list shall be referred to as the “Priority-Listed Offerors”.

3. Phase 3 - Interviews with Priority-Listed Offerors

During this phase, the STATE may (in its sole discretion) conduct interviews only with Priority-Listed Offerors during the time period designated in the “Calendar of Events”.

The STATE may require oral presentations from the Priority-Listed Offerors to ensure a thorough, mutual understanding of each proposal. The STATE shall schedule the time and location for these presentations during the time frame in the “Calendar of Events” or as required by the Evaluation Committee. Any Priority-Listed Offeror who is requested to make a presentation but fails to make the presentation on the scheduled date to the Evaluation Committee shall not be considered for the final award. Any and all costs incurred by an Offeror in making the presentation shall be the Offeror's sole responsibility and shall not be reimbursed by the STATE whatsoever.

4. Phase 4 - Submission of Best and Final Offers

Priority-Listed Offerors shall submit their best and final offers by 2:00 p.m. (HST), November 10, 2004. Best and final offers shall be submitted only once unless it is determined in writing by the STATE to be in the best interest of the STATE to conduct additional discussions, or change the STATE's requirements, and require another submission of best and final offers.

Priority-Listed Offerors that do not submit a best and final offer shall have their immediate previous proposal considered their best and final offer.

5. Phase 5 - Final Evaluation of Proposals

During this phase, the Evaluation Committee (with the assistance of the Board's Consultant) may conduct final evaluations of the Priority-Listed Offeror's best and final offers submitted by the Offerors. If best and final offers are not required, the Evaluation Committee (with the assistance of the Board's Consultant) shall conduct final evaluations of the proposals received. Final evaluations may include interviews with the finalists to clarify any further information on each proposal. The STATE may schedule the interviews by telephone (with the assistance of the Board's Consultant) during the time frame in the "Calendar of Events" or as required by the Evaluation Committee.

6. Phase 6 - Recommendation for Award

The Evaluation Committee (with the assistance of the Board's Consultant) shall prepare a short report summarizing its findings and rankings, and shall make the final selection of the CONTRACTOR.

E. Contract Period

1. The successful Offeror shall enter into a Contract for a period commencing on or about January 15, 2005, and ending June 30, 2008.
2. Thereafter, the Contract may be extended annually by mutual consent.
3. Either party may elect not to extend the Contract on the expiration or extension date of the Contract; provided that the party electing not to extend must notify the other party in writing at least sixty (60) calendar days prior to the expiration or extension date.

F. Contract Execution

1. The successful Offeror shall be required to enter into a formal written Contract in accordance with the laws, rules and regulations of the STATE. It is anticipated that the contract shall be executed within approximately ninety (90) days of the date of notification of the award.
2. The STATE intends to use the "State of Hawaii Agreement for Goods or Services based upon Competitive Sealed Proposals"; and the "General Conditions" in Appendix "D"; provided that the following termination provisions shall also apply:
 - a. The STATE may terminate the Contract immediately if:
 1. The CONTRACTOR fails to comply with any applicable STATE or federal licensing requirement(s) necessary to provide the services under the Contract;
 2. The Plan is discontinued by the STATE, or is disallowed by operation of any STATE or federal law or court order;
 3. The award of the Contract to the CONTRACTOR or the Contract itself is deemed invalid by any court or administrative tribunal;
 - b. Except as otherwise provided in the Contract, if the STATE is dissatisfied with the performance of the CONTRACTOR (or any of its subcontractors), the CONTRACTOR fails to perform its obligations under this Agreement, or the CONTRACTOR otherwise breaches the provisions of the Contract:
 1. The STATE shall immediately notify the CONTRACTOR in writing of the STATE's dissatisfaction, or that the CONTRACTOR has failed to perform or is in breach;
 2. The CONTRACTOR shall have thirty (30) calendar days from receipt of the notification to cure the problem to the satisfaction of the STATE;
 3. During the thirty (30) day period, the CONTRACTOR shall continue to comply with the requirements of the Contract;

4. If the CONTRACTOR fails to cure the problem within the thirty (30) day period, the STATE may terminate the Contract immediately thereafter; and
 5. If at any time after notification, the CONTRACTOR refuses to cure the problem, the STATE may terminate this Agreement within thirty (30) calendar days after such refusal.
- c. Upon termination, expiration, or non-renewal of the Contract, the:
1. STATE shall not be liable to the CONTRACTOR (or its approved subcontractors) for any costs, expenses, loss of profits, or damages whatsoever incurred by the CONTRACTOR (or its approved subcontractors) in the performance of services required under the Contract;
 2. STATE shall have the right to secure services in the open market, or from the next Offeror whose proposal is deemed most advantageous to the STATE; and
 3. The CONTRACTOR shall be required to assist with and fully cooperate with the STATE in transitioning the Plan to another investment company at no cost to the STATE, the Plan, or the Plan's participants.
- d. Additional rights and remedies.
1. The rights and remedies provided in this section are in addition to any other rights and remedies provided by law or under the Contract."

APPENDIX "A"

LETTER OF INTENT TO SUBMIT A PROPOSAL

Ms. Kathleen N. A. Watanabe
Chairperson
Board of Trustees
State of Hawaii Deferred Compensation Plan
Department of Human Resources Development
235 South Beretania Street, #1203
Honolulu, Hawaii 96813

Fax: (808) 587-1128

Dear Ms Watanabe:

Re: Request For Proposal No. DCP-FY-04-1: Competitive Sealed Proposals
to Select a Small/Mid Cap Value Equity Option for the State of Hawaii
Section 457 Deferred Compensation Plan

This is to acknowledge that we have reviewed the above-referenced Request For Proposals and intend to submit a proposal.

Name of Company: _____

Address: _____

Contact person: _____

Title: _____

Telephone number: _____

Fax number: _____

The undersigned understands and agrees that:

1. The State of Hawaii ("State") reserves the right to cancel the RFP when, in the State's opinion, such cancellation is in the best interest of the State.
2. The State may reject Proposals, in whole or in part, and waive any

defects, when in the State's opinion, such rejection or waiver will be in the best interest of the State.

3. The State shall not be liable for any costs, expenses, loss of profits, or damages whatsoever incurred by the Offerors in the event this RFP is canceled or a proposal is rejected.

Very truly yours,

Name:

Title:

Date: _____

APPENDIX “B”

STANDARD PROPOSAL LETTER

Ms. Kathleen N. A. Watanabe
Chairperson
Board of Trustees
State of Hawaii Deferred Compensation Plan
Department of Human Resources Development
235 South Beretania Street, #1203
Honolulu, Hawaii 96813

Fax: (808) 587-1128

Dear Ms. Watanabe:

Re: Request For Proposals No. DCP-FY-04-1: Competitive Sealed Proposals to Select a Small/Mid Cap Value Equity Option for the State of Hawaii Section 457 Deferred Compensation Plan

The undersigned Offeror hereby submits a proposal in response to RFP No. DCP-FY-04-1 for Equity and Fixed Income Investment Options for the State of Hawaii (“State”) Section 457 Deferred Compensation Plan.

The undersigned Offeror understands and agrees that:

1. All services shall be provided in accordance with the RFP, and applicable federal and State laws and rules.
2. The State reserves the right to cancel the RFP when, in the State's opinion, such cancellation is in the best interest of the State.
3. The State may reject Proposals, in whole or in part, and waive any defects, when in the State's opinion, such rejection or waiver will be in the best interest of the State.
4. The State shall not be liable for any costs, expenses, loss of profits, or damages whatsoever incurred by the Offerors in the event this RFP is canceled or a proposal is rejected.

The undersigned Offeror shall answer the following with a “YES” or “NO”:

1. The Offeror has read, understands, and agrees to comply with all specified requirements of the RFP. _____

2. The Offeror has read, understands, and agrees to comply with all applicable federal and State laws in the provision of services under the RFP. _____
3. The Offeror is authorized to transact business in the State of Hawaii.

This "Standard Proposal Letter" must be (a) signed by an individual or individuals authorized to legally bind the Offeror, (b) dated, and (c) affixed with the corporate seal, if any. If the Offeror is a corporation, evidence in the form of a certified copy of a corporate resolution, or certified copy of articles of incorporation or bylaws, shall be submitted showing the individual's authority to bind the corporation. If the Offeror is a partnership or joint venture, each member of the partnership or joint venture must sign this letter, or evidence (in the form of a partnership contractor joint venture agreement) must be submitted showing that the individuals signing the proposal letter have the authority to bind the partnership or the joint venture.

Very truly yours,

Authorized Officer*

Date

Name of Company: _____

Address: _____

Telephone number: _____

Fax number: _____

Hawaii General Excise Tax Number or Federal I.D. Number

* Please attach to this page notarized evidence of the authority of this officer to submit this proposal.

(affix Corporate Seal here)

APPENDIX “C”

WAGE CERTIFICATION

PROPOSAL FOR “SMALL/MID CAP VALUE EQUITY INVESTMENT OPTION FOR THE STATE OF HAWAII SECTION 457 DEFERRED COMPENSATION PLAN”

To the extent that Hawaii Revised Statutes §103-55 applies, I hereby certify that if awarded the Contract, the services to be rendered shall be performed under the following conditions:

1. The services to be rendered shall be performed by employees paid at wages or salaries not less than wages paid to public officers and employees for similar work, if similar positions are listed in the classification plan of the State of Hawaii (“State”) government.
2. All applicable laws of the federal and State governments, including but not limited to workers’ compensation, unemployment insurance, payment of wages, and safety, shall be fully complied with.

I understand that all payments required by federal and State laws to be made by employers for the benefit of their employees are to be paid in addition to the base wages required by Hawaii Revised Statutes §103-55.

Name of Company: _____

Signature: _____

Title: _____

Date: _____

APPENDIX “D”

STATE OF HAWAII GENERAL CONDITIONS

[Insert General Conditions]